

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 102 **Senator Burton (As introduced 01/29/03)**

Position: **Sponsor, if amended**

Proponents: **CTA (Sponsor)**

Opponents: **None known**

SUMMARY

Senate Bill 102 includes up to 36 days of unused sick leave in determining eligibility for career-based enhancements to Defined Benefit (DB) Program allowances, such as a single year final compensation, the career factor and the longevity bonus.

HISTORY:

Chapter 903, Statutes of 2002 (SB 1983—Soto) would have included up to 0.2 years of unused sick leave in determining eligibility for career-based enhancements to DB Program allowances, such as a single year final compensation, the career factor and the longevity bonus. That provision was deleted from the bill prior to its enactment.

Chapter 1028, Statutes of 2000 (AB 821—PER&SS) bases final compensation on the highest average annual compensation earnable by a member during a consecutive 12-month employment period rather than highest three consecutive years for members with at least 25 years of credited service.

Chapter 1029, Statutes of 2000 (AB 1933—Strom-Martin) pays a longevity bonus of \$200 to \$400 per month for members who retire after 2000 and accrue at least 30 years of credited service by 2011.

Chapter 1006, Statutes of 1998 (AB 1102—Knox) among other things, extends eligibility to receive credit at retirement for unused sick leave to members of California State Teachers' Retirement System (CalSTRS) DB Program who became members on or after July 1, 1980, and who retire on or after January 1, 1999.

CURRENT PRACTICE

Current law grants members of the DB Program additional service credit for accumulated unused sick leave at retirement. CalSTRS receives certification from the member's last employer, and determines this service credit by dividing the number of accumulated unused sick leave days by the number of base days (contracted days) for full-time service.

Additionally, members who meet the following criteria receive enhancements in their DB Program benefits:

- Members who retire with at least 30 years of service credit receive an additional 0.2 to their age factor, up to a maximum of 2.4 percent;
- Members who retired on or after January 1, 2001, with 25 years of service credit have their highest one-year compensation used in their retirement calculation;
- Members who retire on or after January 1, 2001, and accumulate at least 30 years of credited service by January 1, 2011, receive a longevity bonus that is added to the lifetime monthly retirement allowance. The member will receive \$200 for 30 years; \$300 for 31 years; and \$400 for 32 or more years.

Typically, only "earned" service credit qualifies members for the benefit enhancements. Currently, unused sick leave service credit cannot be used in determining eligibility for benefit enhancements.

DISCUSSION

SB 102 allows up to 36 days of unused sick leave to be used in determining eligibility for career-based enhancements including a one-year final compensation, the career factor and the longevity bonus.

A member who has less than 25 years of service credit, or a member who has less than 30 years of service credit is unable to apply unused sick leave credit that is otherwise used in their service credit calculation, towards eligibility for the one-year final compensation, career factor, or longevity bonus.

According to the author, this bill is designed to allow borderline cases to be eligible for benefit enhancements. Borderline cases are those members who don't have the full amount of required service credit to qualify for one-year final compensation (25 years), career factor or longevity bonus (30 years) at the end of the school year. In addition, members who are a few days short of qualifying for the benefit enhancements may work the required number of days in the subsequent school year, either in summer school or the fall. This could leave employers in a difficult situation by having to find replacement employees after the term has begun. Permitting the use of a portion of unused sick leave would avoid this problem in many cases. Finally, this bill would

have a positive impact on benefit recipients who don't have the required service credit at the time they apply for a benefit due to the delay in reporting employer information. The ability to use unused sick leave service credit provides a "cushion" of service credit for these retirees.

SB 102 specifies that 36 days of unused sick leave credit may be used to qualify for benefit enhancements, however, this creates an inequity among retiring DB Program members. Members with different contract days may result in a different calculation of their unused sick leave. As a result, one teacher could potentially receive a benefit enhancement, while another would not, even though both members have the same amount of unused sick leave days at retirement. Therefore, CalSTRS staff recommends using a percentage of a year rather than days to simplify implementation because that is already in the database, and would be consistent with the bill the Board sponsored last year.

Benefit enhancements were intended to reward members who extend their career. Allowing a member to apply up to 0.200 of a year of unused regular sick leave service credit would ensure a more equitable calculation for all DB Program members. According to the System Actuary, the total number of members impacted is expected to be small. This is because the only members affected are those whose current or projected years of service without the addition of unused sick leave is between 24.880 and 25, or 29.880 and 29.999, or 31.880 and 31.999, or 32.885 and 32.999.

FISCAL IMPACT

Program Cost/Savings –

The additional cost of permitting the use of unused sick leave to qualify for benefit enhancements could range from \$29 to \$58 million, depending on what the member would have done under current law. If the member had performed the additional service to qualify for the enhancements, the cost of allowing the use of unused sick leave instead would be quite small—the foregone revenue from contributions that would have been paid for that additional service. If, for example, 50 percent of the members who retire performed additional service in order to qualify for the benefit enhancements, the System Actuary estimates that the present value cost of authorizing the use of up to 36 days of unused sick leave to qualify for enhanced benefits would be approximately \$29 million.

Alternatively, if members did not work the additional service needed to qualify for the benefit enhancements, the maximum present value cost of authorizing the use of up to 36 days of unused sick leave would be approximately \$58 million. (The cost would essentially be the same if the maximum amount of unused sick leave was 0.200 years.) The annual revenue needed to support that maximum cost would be \$5 million, beginning in fiscal year 2003-04.

Administrative Costs/Savings –

The one-time cost of the required changes to the System's database is expected to be between \$200,000 and \$300,000. Absorbing this cost may have a detrimental impact on CalSTRS ability to provide services to its members.

BOARD POSITION

Sponsor. An amendment should be included in the bill to change the maximum amount of unused sick leave from up to 36 days to 0.200 years of service credit, and to appropriate \$250,000 for the one-time corporate database implementation costs. This legislation authorizes a limited amount of service credit that was accumulated for unused sick leave to count towards career-based benefit enhancements, and as a result, provides members who were just shy of earning benefit enhancements with an opportunity to do so.